

Message Text

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ACTION EUR-12

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SUBJ: EFFECT OF IMPORT SHORTAGES ON INDUSTRY

1. SUMMARY: MOST SECTORS OF THE ISTANBUL INDUSTRIAL COMMUNITY ARE AFFECTED TO SOME EXTENT BY LACK OF INPUTS RESULTING FROM INABILITY OF GOT TO TRANSFER FOREIGN EXCHANGE FOR IMPORTS. MOST FIRMS IN THE AUTOMOTIVE, ELECTRONICS, RUBBER/PLASTICS, CHEMICAL, AND METAL INDUSTRIES ARE OPERATING WELL BELOW NORMAL CAPACITY, BUT HAVE ENOUGH MATERIAL IN STOCK OR IN PIPELINE TO CONTINUE OPERATING FOR WEEKS OR MONTHS.

2. IN AUTOMOTIVE FIELD, GENOTO, WHICH ASSEMBLED GM TRUCKS, AND CHRYSLER ARE CLOSED. GENOTO UNABLE TO SECURE MAJOR IMPORTED COMPONENTS, DISMISSED MAJORITY OF EMPLOYEES IN DECEMBER. CHRYSLER HAS IMPORTS IN PIPELINE, BUT SHUT DOWN PRODUCTION LINES SECOND WEEK OF JANUARY BECAUSE OF CONFUSION OVER NEW RATES OF IMPORT DUTIES AND PRODUCTION TAXES. OTHER MANUFACTURERS ARE PLAGUED WITH CHRONIC SHORTAGES OF DOMESTICALLY PURCHASED COMPONENTS EVEN THOUGH IMPORT CREDITS CONTINUE TO BE GRANTED BY FOREIGN PARENT COMPANIES. MOST RECENT SUCH CREDITS ARE \$7 MILLION FROM FORD
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TO OTOSAN (KOC AUTOMOBILE AND TRUCK LICENSEE) AND \$10 MILLION FROM INTERNATIONAL HARVESTER TO TOE (ASSEMBLES TRUCKS AND TRACTORS). MOST COMPANIES FACED WITH SHUTDOWNS OF SEVERAL WEEKS, SUCH AS TOE, WHICH STOPPED TRACTOR PRODUCTION END OF DECEMBER, CONTINUE TO PAY EMPLOYEES RATHER THAN PAY HIGH TERMINATION BONUSES. TOE EXPECTS TO RECEIVE ADDITIONAL TRACTOR COMPONENTS END OF FEBRUARY.

3. ONE OF LARGEST ELEXTRONIC COMPANIES, WHICH NORMALLY MANUFACTURED 800 TV SETS DAILY, IS NOW MAKING 250 BY UTILIZING STOCKS ON HAND. THIS FIRM PREDICTS THAT 1978 TV PRODUCTION WILL BE 20 TO 30 PERCENT OF 1977 TOTAL.

4. TIRE COMPANIES' MOST IMMEDIATE SUPPLY PROBLEM IS PETKIM, THE STATE-OWNED PETROCHEMICAL COMPANY WHICH SUPPLIES SYNTHETIC RUBBER TO THE THREE TIRE MANUFACTURERS. PETKIM HAS IMPORTED FEED STOCKS SUFFICIENT TO LAST THROUGH FEBRUARY 10 WHICH, IF DIVIDED SEVNLY AMONG THE PRODUCERS WILL MAINTAIN TIRE PRODUCTION THROUGH FIRST WEEK OF MARCH. SOME OR ALL OF TIRE MANUFACTURERS HOWEVER PROBABLY WILL EXTEND ADDITIONAL CREDITS FOR IMPORTS IF LOCAL SUPPLIES OF SYNTHETIC RUBBER DRY UP, AND WILL MAINTAIN PRODUCTION IN ORDER TO AVOID MAKING TERMINATION PAYMENTS TO WORKERS TOTALING MILLIONS OF DOLLARS.

5. COMMENT: LARGE PROPORTION OF MANUFACTURERS WITHOUT FOREIGN PARTNERS APPARENTLY ARE ABLE TO CONTINUE OPERATING AT REDUCED LEVELS BY MAKING IRRREGULAR ARRANGEMENTS FOR PAYING OR GUARANTEEING PAYMENT WITH INTEREST TO FOREIGN SUPPLIERS OUTSIDE OF OFFICIAL CHANNELS. MANUFACTURERS OBVIOUSLY ARE RELUCTANT TO DISCUSS DETAILS OF SUCH ARRANGEMENTS, SO IT IS DIFFICULT TO ESTIMATE THE VOLUME OF BLACK MARKET IMPORT TRANSACTIONS. WIDELY QUOTED FIGURES OF ONE HUNDRED MILLION DOLLARS PER MONTH ARE PROBABLY NOT FAR FROM REALITY, HOWEVER, AND WOULD REPRESENT THE MAJORITY LIMITED OFFICIAL USE

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OF PRIVATE SECTOR IMPORT TRANSACTIONS DURING THE LAST MONTH OR TWO. THE SOURCE OF THESE FUNDS IS PRIMARILY THE EARNINGS AND SAVINGS OF TURKISH WORKERS IN EUROPE. IF THE ESTIMATE OF PARALLEL MARKET TRANSACTIONS IS NEAR THE \$100 MILLION PER MONTH LEVEL, MUCH OF THIS SHOULD BE REFLECTED IN A DECLINE IN REMITTANCES THROUGH OFFICIAL CHANNELS WHICH REPRESENTED APPROXIMATELY \$1 BILLION IN 1977 FOREIGN EXCHANGE EARNINGS. WE ASSUME A SHARP DECLINE IN THESE EARNINGS WOULD TRIGGER GOT ACTIONS AGAINST THE PARALLEL MARKET AND THUS THE PRIVATE SECTOR CANNOT EXPECT PERMANENT ACCESS TO THESE FOREIGN EXCHANGE SOURCES FOR THEIR IMPORTS. A FIRST STEP IN THIS DIRECTION WAS THE RECENT GOT REGULATION ON OPEN ACCOUNT IMPORT TRANSACTIONS WHICH LIMITED THE PRACTICE TO INDISTRIAL END-USERS ONLY.
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